



Ph.D. COURSE:

The Nature of the Firm: Governance, Investment and Growth

Spring 2011 at Jönköping International Business School

Course credits:

7.5 ECTS credits

1 ECTS = appr. 5 hrs in class; appr. 20 hrs individual work

Education Cycle:

Third cycle, doctoral program course

Course managers/examiners:

Professor Per-Olof Bjuggren (JIBS, Box 1026, 551 11 Jönköping/phone. 036-101741 e-mail per-olof.bjuggren@jibs.hj.se). Register for the course by sending an e-mail to Per-Olof Bjuggren.

Course language

English

Prerequisites:

The course is of interest for graduate students in economics, business administration and law. Industrial organization has a microeconomic foundation. Sometimes it is called applied microeconomics. Therefore knowledge of microeconomics is recommended.

Purpose and objectives

The course “The Nature of the Firm” has as its main objectives to provide knowledge of the firm as a vehicle for coordination of scarce resources. More specifically the objectives of the course are

- to delineate the characteristics of the firm as a transaction mode
- to give a contractual picture of the characteristics of the firm
- to discuss the objectives of the firm, to look at the legal form of the firm and its implications
- to study the implications of institutional framework and ownership control on performance (the governance of the firm)
- to analyze the investment and growth of the firm from a corporate governance perspective to look at merger and acquisitions as a means for growth.

Course content

The course contents may differ dependent on the field of interest of the student. Students of economics may, if it is in line with their field of interest, concentrate on the theoretical aspects of principal agent relationships, investment and growth. Students of business administration have an opportunity to study how corporate governance features differ for different types of firms as e.g. private versus public corporations. Law students may concentrate on issues such as how performance of firms are dependent on institutional environment and the contractual aspects related to the nature of the firm. The final choice of specialization with the field of the nature of the firm is up to the individual student.



The following topics will be treated:

1. Firms, organizations and contracts
2. Economic organization and institutional framework
3. Theory of the firm and vertical integration
4. Internal organization of firm activities
5. The firm from an evolutionary perspective
6. The link between investment and firm performance
7. The Impact of corporate governance and institutional framework on firm performance
8. Pros and cons of firm growth through mergers and acquisitions

Intended learning outcomes:

At the end of the course, students shall

- possess knowledge about and critically assess different theoretical perspectives on how business practices can be explained
- be able to make choices between different methods/techniques and be able to justify their choice
- possess knowledge about and critically assess different analytical tools and how to apply them
- know how firms, markets and contracts function as coordination modes in the allocation of resources
- be aware of the importance of institutions for economic efficiency
- have the tools for entangling the different factors that determine the performance of the firm from a growth perspective

Course/classes methodology

The course will be in the format of lectures with interactive discussions of theories and their applications.. Each student needs to be prepared by reading the required chapters/articles. Student essays will be presented and discussed during seminars.

Examination

The examination consists of two essays. One of the essay is an individual paper. The topic is up to the student to choose. The only constraint is that the paper has to deal with a nature of the firm problem. I expect a paper of the length of 9-15 pages.

The second essay is to have the character of a case study which provides the answer to some of the following questions:

Which concepts covered in the lectures are most useful for understanding the history of the company?

What does the contractual structure of the company look like?

What are the strengths and weaknesses of the institutional framework within which the company is operating?

Is the company making efficient investments?

What corporate governance reasons explain the performance of the company?

Is the company growing organically or through acquisitions?



What are the efficiency implications of the company's choice of mode of growth?

Course evaluation

A course evaluation will be conducted at the end of the course.

Schedule

Course start: February 15, 2011

1. Introduction

The Corporation, Chs 1 & 2

The Economic Nature of the Firm Chs 1-6

Chs 1-3 in Bjugggren-Mueller

2. Institutional Framework and Economic Organization

Williamson, O.E., (2000), "The New Institutional Economics: Taking Stock, Looking Ahead", *Journal of Economic Literature*, 38:595-613

Baumol, W. J., (1990), "Entrepreneurship: Productive, Unproductive, and Destructive," *Journal of Political Economy*, 99:893-921.

3. The contractual approach

The Corporation, Chs 3

Ch 4 in Bjugggren Mueller

The Economic Nature of the Firm Chs 7-12

4 Transaction-Cost Economics

Coase, R.H. (1937) "The Nature of the Firm" in Buckley, P.J. and Michie, J. (eds) *Firms, Organizations and Contracts*, Oxford: Oxford University Press

Masten, S.E. and Saussier, S., (2002), "Econometrics of Contracts: An Assessment of Developments in the Empirical Literature on Contracting" in Brousseau and Glachant (eds) *The Economics of Contracts. Theories and Applications*

Williamson, O.E., (1979), "Transaction-Cost Economics: The Governance of Contractual Relations" chapter 6 in in Buckley, P.J. and Michie, J. (eds) *Firms, Organizations and Contracts*, Oxford: Oxford University Press

Williamson, O.E., (1989), "Transaction-Cost Economics", in Schmalensee and Willig (eds) *Handbook of Industrial Organization*, Amsterdam: North Holland



Williamson, O.E., (2002), "The Theory of the Firm as Governance Structure: From Choice to Contract", *Journal of Economic Perspectives*, 16:171-195.

Ch 2 in Bjuggren Mueller

5. The Internal Organization

The Economic Nature of the Firm Chs 14-20

6. Evolutionary and Life Cycle Theories

Alchian, A.A., (1950), "Uncertainty, Evolution and Economic Theory", *Journal of Political Economy*, 58:211-221.

The Corporation, Ch 4

7. Investment and Firm Performance

The Corporation, Ch 7

8. Corporate Governance and Institutional Framework

The Corporation, Chs 5-7

The Economic Nature of the Firm Chs 21- 25

Shleifer, A and Vishny, R., 1997, "A Survey of corporate governance", *Journal of Finance*, 52:737-783.

La Porta, R., Lopez-De-Silanes, F., Shleifer, A and Vishny, R.. (1997), "Legal Determinants of External Finance", *Journal of Finance*, 52:1131-1150..

La Porta, R., Lopez-De-Silanes, F. and Shleifer, A. (1999) "Corporate Ownership Around the World". *Journal of Finance*. 54: 471-517

La Porta, R., Lopez-De-Silanes, F., Shleifer, A and Vishny, R.. (2000), "Investor Protection and Corporate Governance", *Journal of Financial Economics*, 58:3-27.

La Porta, R., Lopez-De-Silanes, F., Shleifer, A and Vishny, R.. (2002), "Investor Protection and Corporate Valuation", *Journal of Finance*, 62:1147-1170..

La Porta, R., Lopez-De-Silanes, F. and Shleifer, A.. (2008), "The Economic Consequences of Legal Origins", *Journal of Economic Literature*, 46:285-332.

Morck, R., Wolfenzon, D. and B. Yeung, (2005), "Corporate Governance, Economic Entrenchment, and Growth" *Journal of Economic Literature*, September



Gugler, K., Mueller, D. C., and Yurtuglo, B. B., (2003), “The Impact of Corporate Governance on Investment Returns in Developed and Developing Countries”, *The Economic Journal*, 113:511-539

Gugler, K., Mueller, D. C. and Yurtoglu, B. B., (2004), “Corporate Governance and the Returns on Investment,” *Journal of Law and Economics*, 47:589-633.

9. Mergers

The Corporation, Ch 8-9

Course Readings (books)

Dennis Mueller, 2003, *The Corporation: Investment, mergers, and growth*, Routledge.

Available at the SOWI Bookshop (there are some copies in the library at BWZ)

The Economic Nature of the Firm: A Reader (Third edition) edited by Randall S. Kroszner and Louis Putterman, Cambridge University Press, 2009-

Bjuggren, P-O and Mueller, D (eds)., 2009 *The Modern Firm, Corporate Governance and Investment*., Cheltenham, UK: Edward Elgar, 2009. (400 pages)